Patti Brennan: Hi, everybody. Welcome to "The Patti Brennan Show." Whether you have $20 or $20 million, this show is for those of you who want to protect, grow, and use your assets to live your very best lives.

I can't think of a better introduction to what I'm going to be talking about today in this "Ask Patti Brennan" series than what do you do if you have a sudden wealth event? You could win the lottery, your company could go public, or you could receive an inheritance that you didn't anticipate. What should I keep in mind and what should I consider?

First and foremost, everybody worries about taxes. What are the income tax implications? If it's a lottery, they withhold that, but what about inheritances and other forms? What about that company that just went public? It depends on the kind of stock that you have. Do you have options or did your stock come from RSUs?

The first thing is, what are the income tax implications? I'm going to talk about that a little bit more. The first question would be, what are you going to do? How does your life change? We've heard stories of people who've won lotteries and had these sudden wealth events, only to find that10 years later, it's all gone.

Let's assume, in the first example, that you received an inheritance, and that inheritance is comprised of some cash, a portfolio of stocks and bonds, an IRA, and an annuity. First and foremost, you should know that the SECURE Act 1 and 2 really have impacted what you must do as it relates to IRAs and annuities.

I got a call from a friend of mine who received an inheritance five years ago. He just left it with the original company and the advisor. He was taking his distributions as required from the IRAs, but he didn't take anything from the annuities.

Let me tell you something, annuities are also subject to these rules. Because he hadn't taken any money out for the five years, he must cash it all out within year five and pay all that income tax at ordinary income tax rates in the same year.

Just understand when you have these times that this sudden wealth event occurs, make sure that you're getting good advice. That's an expensive mistake right there.

Also, take into consideration as you think about the holistic impact on your financial plan. If suddenly, you've got $3 million, life insurance is there to create money where it doesn't exist yet.

Your company just came public and you're a millionaire. Do you really need that million-dollar policy anymore? Probably not. I will tell you; you probably need a big fat umbrella liability policy because you've got a bullseye on your back.

If anybody gets in a car accident or falls in your home, that umbrella liability will protect what you received in that sudden wealth event.

Another thing that you might want to consider is the titling of the account that you put that money into. You would want to talk to a lawyer. In Pennsylvania, for married couples, the default is usually joint with rights of survivorship. If it's Ed and, I love you, Ed, but if I die first, you can have the money. If he dies first, I can have the money.

In Pennsylvania, we could also title it tenancy by the entirety. In that case, we receive this wonderful inheritance, this wealth event. If it's tenancy by the entirety, we both must do something wrong for that to be attachable. Guess what? Only one person can drive a car, and that's usually what people are sued for.

Even the titling of your accounts has a major impact on what you do with that money. From an income tax perspective, it's very important to understand the implications. By the way, let's go back to paying off debts and the other things that most of us must pay for.

For example, you think about those of you who may have kids in college. If you have a sudden wealth event, you've got to disclose that on the FAFSA form. You may not get the college aid that you are anticipating.

That will also impact what you pay for Medicare and Part B because of something called IRMAA. The chances are, if planning isn't being done, you're going to pay more for healthcare when you're retired (Medicare and Part B). That's very important.

Chances are you're also probably going to be subject to a 3% investment tax. Again, what are you going to do about it? You're keeping the rest of the money. I don't want to let the tax tail wag the dog. I just want you to be aware of it.

Your tax bracket in general is going to go up. The capital gains rate is also in jeopardy. You may not be able to get that 15% capital gain rate, it might end up being 20%. If you were to sell anything, you've got to take into consideration that you're going to be paying 23.8 % instead of 15 %.

What are you going to do about it? Maybe nothing. You don't want to give the money back, that's for sure. It's just important to recognize that you've got to keep that money set aside to pay the taxes next April.

Another important thing is to recognize how you receive the money. If you received this money as an inheritance, that has completely different income tax implications than if it was from a company going public. Understand what it means in your tax situation.

If you received the money as an inheritance, chances are there was a step-up in cost basis. Income tax planning isn't as important as it would be if, for example, a company went public.

If a company goes public, maybe you don't want to sell it all in one year. Maybe you can think strategically and keep your tax bracket. Even in the 12% tax bracket, capital gains for joint couples is $90,000 before you pay any capital gains tax on the sale of that stock. It's very important to identify how it happened and what you should do.

In terms of long-term planning, be careful. You've received this wonderful gift. Rerun your numbers, it doesn't necessarily mean that you can stop working. You've got to think things through.

I think a lot of times when something like this happens, people come out of the woodwork. There's a book that was written, I wish I could tell you the author, it's called "Sudden Wealth." There are so many examples of people having a sudden wealth event, and then people coming out of the woodwork saying, "Can I have this? Can I have that?"

Chances are, receiving a lump sum may have an impact on your risk tolerance, your overall objectives, what you want to do for your family, and what your estate plan will be. It might be a good opportunity to establish a gifting program over time. And to be able to get that money out of your taxable estate and help the people that you love most.

Are you charitably inclined? You could put a lump sum of money in a donor-advised fund and divvy it out over several years and donate to different charities. This is not a once-and-done type of event. It's something that you want to evaluate on an ongoing basis as part of your planning.

There's lots of things to consider as it relates to a sudden wealth event. The takeaway for those of you who are listening and watching today is get professional advice. Talk to your advisor, your CPA, and your attorney. Get all these people together to run your numbers so that you're making good decisions that are based on your future reality and the life that you want to live.

Thank you so much for joining me today. I'm Patti Brennan. We're Key Financial, wealth management with wisdom and care. For those of you who are listening, I am really hoping that you all have a sudden wealth event. Take care.